



EX PARTE OR LATE FILED



July 14, 1998

Magalie Roman-Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Rm. 222  
Washington, D.C. 20554

RECEIVED

JUL 14 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: CC Docket No. 80-286

Dear Ms. Roman-Salas:

On July 13, 1998, John Schrottenboer and Porter Childers, representing the United States Telephone Association (USTA), met with Sandy Ibaugh of the Federal-State Joint Board staff to discuss USTA's position regarding issues in the Federal-State Joint Board on Separations Reform proceeding. The attached material was the basis for the presentation and discussion.

The discussion was consistent with USTA's Comments and Reply Comments on file in this proceeding.

In accordance with Section 1.1206(b)(2) of the Commission's rules, two copies of this notice are being submitted to your office today. Please include it in the public record of this proceeding.

Respectfully submitted,

*Porter Childers* by

Porter E. Childers  
Executive Director - Legal & Regulatory Affairs

attachment

cc: Federal-State Joint Board Service List

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# **USTA Separations Reform Proposal**

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**CC Docket 80-286**

## **Jurisdictional Separations Reform and Referral to the Federal-State Joint Board**

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FEDERAL COMMUNICATIONS COMMISSION  
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# **Legal Basis for Jurisdictional Separations**

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- There is currently a legal requirement to define jurisdictional responsibilities for costs and expenses.
- Each jurisdiction must then allow charges at a level designed to fairly compensate LECs for services under its authority.
- Jurisdictional separation of costs is necessary so long as local exchange carriers remain subject to federal and state regulations — including price cap regulation.
- The Telecom Act of 1996 did not change 47 U.S.C. § 221(c).



# **USTA's Separations Freeze Proposal**

## **Two-Tiered Approach:**

### **Price Cap Carriers:**

- Immediate freeze of allocation factors and categorization relationships as of 12/31/97

### **Rate of Return Carriers:**

- Immediate freeze of allocation factors based on an average of 1994, 1995, and 1996 data
- Continue current categorization process



# **Meets Criteria Recommended by FCC Commenters Evaluating the Existing Separations Process**

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- Competitive neutrality
- Administrative simplicity
- Regulatory streamlining
- Maintains principles of cost causation
- Avoids jurisdictional cost shift
- Maintains jurisdictional separations



# USTA's Separations Freeze Proposal

## Example

### Price Cap Carriers — Central Office Equipment

	BASE YEAR				FUTURE YEAR(S)		
	Subj to Sep (a)	Category Ratio (b=a/tot a)	Interstate (c)	Interstate Factor (d=c/a)	Subj to Sep (e=tot e*b)	Interstate (f=e*d)	Total Interstate (g=tot f/tot e)
<b>Account 2210</b>							
1. Tandem Switching	18,000	0.0594	9,400	0.5222	20,792	10,858	
2. Local Switching	285,000	0.9406	34,500	0.1210	329,208	39,851	
3. Total	303,000	1.0000	43,900	0.1449	350,000*	50,710	0.1449
<b>Account 2220</b>							
4. Operator Systems	40	0.0092	40	1.0000	46	46	
5. Service Observing Boards	5	0.0011	—	0.0000	6	—	
6. Auxiliary Service Boards	4,200	0.9622	680	0.1619	4,811	799	
7. Traffic Service Positions	120	0.0275	7	0.0583	137	8	
8. Total	4,365	1.0000	727	0.1666	5,000*	833	0.1666

\* For future years, the only input required is the total dollar amount in the account subject to separations.

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# USTA's Separations Freeze Proposal

## Example

### Price Cap Carriers — Cable and Wire Facilities

	BASE YEAR				FUTURE YEAR(S)		
	Subj to Sep (a)	Category Ratio (b=a/tot a)	Interstate (c)	Interstate Factor (d=c/a)	Subj to Sep (e=tot e*b)	Interstate (f=e*d)	Total Interstate (g=tot f/tot e)
<b>Account 2410</b>							
1. Cat. 1 C&WF Loop - Msg	523,000	0.7259	131,000	0.2505	598,855	150,000	
2. Cat. 1 C&WF Loop - Pl	27,500	0.0382	11,300	0.4109	31,489	12,939	
3. Cat. 2 C&WF Exch Trunk - Msg	50,700	0.0704	5,300	0.1045	58,053	6,069	
4. Cat. 2 C&WF Exch Trunk - Pl	2,000	0.0028	1,500	0.7500	2,290	1,718	
5. Cat. 3 C&WF IX Trunk - Msg	32,500	0.0451	22,000	0.6769	37,214	25,191	
6. Cat. 3 C&WF IX Trunk - Pl	5,800	0.0080	3,200	0.5517	6,641	3,664	
7. Cat. 4 C&WF Host/Remote Trunk - Msg	76,500	0.1062	8,700	0.1137	87,595	9,962	
8. Cat. 4 C&WF Host/Remote Trunk - Pl	2,500	0.0035	300	0.1200	2,863	344	
9. Total	720,500	1.0000	183,300	0.2544	825,000*	209,855	0.2544

\* For future years, the only input required is the total dollar amount in the account subject to separations.

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# USTA's Separations Freeze Proposal

## Example

### Rate of Return Carriers — Central Office Equipment

	1996		1994 Interstate Factor (c)	1995 Interstate Factor (d)	1996 Interstate Factor (e)	Average Interstate Factor* $(f) = ((c) + (d) + (e)) / 3$	1997	
	Subj to Sep (a)	Interstate $(b) = (a) * (e)$					Subj to Sep (g)	Interstate $(h) = (g) * (f)$
<b>Account 2210</b>								
1. Tandem Switching	10,000	5,200	0.5000	0.5100	0.5200	0.5100	10,500	5,355
2. Local Dial Switching	200,000	95,000	0.4500	0.4650	0.4750	0.4633	222,500	103,092
3. Total	210,000	100,200					233,000	108,447
<b>Account 2220</b>								
4. Operator Systems	400	400	1.0000	1.0000	1.0000	1.0000	405	405
5. Service Observing Boards	100	-	0.0000	0.0000	0.0000	0.0000	110	-
6. Auxiliary Service Boards	50	4	0.0600	0.0760	0.0850	0.0737	51	4
7. Traffic Service Positions	500	88	0.1666	0.1678	0.1767	0.1704	550	94
8. Total	1,050	493					1,116	502

\* For future years, the average interstate factors would be used as the separations allocators

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# USTA's Separations Freeze Proposal

## Example

### Rate of Return Carriers — Cable and Wire Facilities

Account 2410	1996		1994 Interstate Factor (c)	1995 Interstate Factor (d)	1996 Interstate Factor (e)	Average Interstate Factor* $(f) = [(c) + (d) + (e)] / 3$	1997	
	Subj to Sep (a)	Interstate (b) = (a) * (e)					Subj to Sep (g)	Interstate (h) = (g) * (f)
1. Cat. 1 C&WF Loop - Msg	523,000	132,058	0.2495	0.2520	0.2525	0.2513	525,000	131,950
2. Cat. 1 C&WF Loop - PI	27,500	11,138	0.4035	0.3986	0.4050	0.4024	28,000	11,266
3. Cat. 2 C&WF Exch Trunk - Msg	50,700	5,324	0.0985	0.1120	0.1050	0.1052	51,000	5,364
4. Cat. 2 C&WF Exch Trunk - PI	2,000	1,520	0.7400	0.7500	0.7600	0.7500	2,000	1,500
5. Cat. 3 C&WF IX Trunk - Msg	32,500	22,019	0.6875	0.6750	0.6775	0.6800	33,000	22,440
6. Cat. 3 C&WF IX Trunk - PI	5,800	3,132	0.5430	0.5395	0.5400	0.5408	6,000	3,245
7. Cat. 4 C&WF Host/Remote Trunk - Msg	76,500	8,415	0.1095	0.1130	0.1100	0.1108	77,000	8,534
8. Cat. 4 C&WF Host/Remote Trunk - PI	2,500	319	0.1150	0.1250	0.1275	0.1225	3,000	368
9. Total	720,500	183,923					725,000	184,666

\* For future years, the average interstate factors would be used as the separations allocators

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# **Advantages of USTA's Separations Freeze Proposal**

- Promotes competitive neutrality and administrative simplicity
- Significant streamlining of the regulatory process
- Continues to allow for the processing of cost data through the FCC Parts 32, 64, 36, and 69 rules
- Easily auditable
- Continues to provide required data for Federal and State Monitoring Reports
- Continues to provide required data for FCC's ARMIS 43-04 Report



# Revenue Requirement Impacts of Different Separations Changes

## Interstate Revenue Requirement

	ARMIS Companies	NECA Companies	ARMIS+NECA Companies
Current — USTA Proposal	\$22,276,850,000	\$1,496,307,000	\$23,773,157,000
Current — Loop	\$22,276,850,000	\$1,594,962,000	\$23,871,812,000
USTA Proposal	\$22,254,968,000	\$1,483,861,000	\$23,738,829,000
Loop Allocated @15%	\$18,219,641,000	\$1,299,796,000	\$19,519,437,000
Loop Allocated @SLU	\$17,896,073,000	\$1,387,916,000	\$19,283,989,000

NOTES: 1. The base year amounts are different for the NECA Companies for the USTA Proposal and the Loop Allocator change because only a subset of the companies in the Loop quantification was used for the USTA proposal quantification.

2. ARMIS companies based on 1996 & 1997 ARMIS 43-04 data. NECA companies based on 1994, 1995, 1996 data.

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# Revenue Requirement Impacts of Different Separations Changes

## Shift to State - Per line per Month

	<u>Average</u>	<u>Range</u>
<b>USTA Proposal</b>	<b>\$0.02</b>	<b>\$(33.66) - \$15.71</b>
ARMIS Cos.	\$0.01	\$(1.33) - \$1.40
NECA Cos.	\$0.16	\$(33.66) - \$15.71
<b>Loop Allocated @15%</b>	<b>\$2.25</b>	<b>\$1.05 - \$64.64</b>
ARMIS Cos.	\$2.19	\$1.15 - \$4.35
NECA Cos.	\$3.55	\$1.05 - \$64.64
<b>Loop Allocated @ SLU</b>	<b>\$2.37</b>	<b>\$(78.36) - \$58.70</b>
ARMIS Cos.	\$2.37	\$(2.64) - \$5.41
NECA Cos.	\$2.49	\$(78.36) - \$58.70

NOTES: 1. For the USTA proposal 78.6% of the NECA Companies had impacts less than +/- \$2.00; 89.1% were less than +/- \$3.00; 96.8% were less than +/- \$5.00. Only 19 Companies had impacts greater than +/- \$5.00.

2. ARMIS companies based on 1996 & 1997 ARMIS 43-04 data. NECA companies based on 1994, 1995, 1996 data.

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# **If the USTA Proposal Is Adopted, the Issues Raised in the Notice on These Subjects Are Resolved:**

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- Marketing expenses
- Spare facilities
- Customer service expenses
- White Pages

# **Other Issues**

- Universal service
- Study areas
- Audits

**LOOP ALLOCATOR ALTERNATIVES**  
(ARMIS Cos. are 1997 Dollars; NECA Cos. are 1996 Dollars)

STATE	COMPANY # (MASKED NAME)	LOOPS (C)	Loop @ 25% BASE INTERSTATE ASSIGNMENT (D)	Loop @ 15%			Loop @ SLU		
				INTERSTATE ASSIGNMENT (E)	SHIFT TO STATE		INTERSTATE ASSIGNMENT (H)	SHIFT TO STATE	
					TOTAL DIFFERENCE (F) = (D) - (E)	DIFFERENCE PER LOOP PER MONTH (G) = (F) / (C) / 12		TOTAL DIFFERENCE	DIFFERENCE PER LOOP PER MONTH (J) = (I) / (C) / 12
(A)	(B)		(D)	(E)	(F) = (D) - (E)	(G) = (F) / (C) / 12	(H)	(I) = (D) - (H)	(J) = (I) / (C) / 12
IN 155		3,143	\$806,845	\$607,197	\$199,648	\$5.29	\$566,619	\$240,228	\$6.37
IN 293		2,965	\$560,395	\$413,557	\$146,838	\$4.13	\$320,772	\$239,623	\$6.73
IN 298		595	\$230,221	\$200,984	\$29,237	\$4.09	\$207,623	\$22,598	\$3.17
IN 354		9,722	\$2,116,828	\$1,684,759	\$432,069	\$3.70	\$1,613,731	\$503,097	\$4.31
IN 399		1,922	\$772,121	\$692,361	\$79,760	\$3.46	\$735,863	\$36,258	\$1.57
IN 424		1,619	\$320,648	\$256,119	\$64,529	\$3.32	\$240,847	\$79,801	\$4.11
IN 439		4,161	\$869,592	\$707,370	\$162,222	\$3.25	\$743,450	\$126,141	\$2.53
IN 441		12,012	\$3,408,880	\$2,941,260	\$467,619	\$3.24	\$3,307,206	\$101,674	\$0.71
IN 452		10,716	\$1,733,969	\$1,331,877	\$402,093	\$3.13	\$1,682,727	\$51,243	\$0.40
IN 517		557	\$208,347	\$190,913	\$17,435	\$2.61	\$193,945	\$14,402	\$2.15
IN COIN - GTE NORTH INC.		176,831	\$19,180,137	\$15,262,441	\$3,917,696	\$1.85	\$15,833,029	\$3,347,108	\$1.58
IN GLIN - CONTEL OF THE SOU		10,222	\$1,687,319	\$1,362,181	\$325,139	\$2.65	\$1,362,181	\$325,139	\$2.65
IN GTIN - GTE NORTH INC.		720,686	\$100,455,260	\$81,280,294	\$19,174,967	\$2.22	\$79,862,162	\$20,593,099	\$2.38
IN NBIN - INDIANA BELL		2,124,359	\$229,479,514	\$189,694,801	\$39,784,713	\$1.56	\$183,522,620	\$45,956,893	\$1.80
IN UTIN - UTC OF INDIANA, INC.		220,008	\$31,669,140	\$26,672,824	\$4,996,317	\$1.89	\$27,681,714	\$3,987,426	\$1.51
IN Total		3,299,518	\$393,499,217	\$323,298,936	\$70,200,281	\$1.77	\$317,874,489	\$75,624,728	\$1.91
IN Min						\$1.56			\$0.40
IN Max						\$5.29			\$6.73

# LOOP ALLOCATOR ALTERNATIVES (ARMIS Cos. are 1997 Dollars; NECA Cos. are 1996 Dollars)

STATE	COMPANY # (MASKED NAME)	LOOPS	Loop @ 25%		Loop @ 40%			Loop @ 33 1/3%		
			BASE INTERSTATE ASSIGNMENT	INTERSTATE ASSIGNMENT	SHIFT TO STATE		INTERSTATE ASSIGNMENT	SHIFT TO STATE		DIFFERENCE PER LOOP PER MONTH
					TOTAL DIFFERENCE	DIFFERENCE PER MONTH		TOTAL DIFFERENCE	DIFFERENCE PER MONTH	
(A)	(B)	(C)	(D)	(K)	(L) = (D) - (K)	(M) = (L) / (C) / 12	(N)	(O) = (D) - (N)	(P) = (O) / (C) / 12	
IN 155		3,143	\$806,845	\$1,106,231	-\$289,386	(\$7.94)	\$973,177	-\$166,332	(\$4.41)	
IN 293		2,965	\$560,395	\$790,977	-\$230,581	(\$6.48)	\$687,673	-\$127,277	(\$3.58)	
IN 298		595	\$230,221	\$274,077	-\$43,856	(\$6.14)	\$254,586	-\$24,364	(\$3.41)	
IN 354		9,722	\$2,116,828	\$2,764,894	-\$648,066	(\$5.55)	\$2,476,867	-\$360,039	(\$3.09)	
IN 399		1,922	\$772,121	\$893,240	-\$121,119	(\$5.25)	\$838,710	-\$66,589	(\$2.89)	
IN 424		1,619	\$320,648	\$422,862	-\$102,214	(\$5.26)	\$376,468	-\$55,820	(\$2.87)	
IN 439		4,161	\$889,592	\$1,122,600	-\$253,008	(\$5.07)	\$1,009,923	-\$140,332	(\$2.81)	
IN 441		12,012	\$3,408,880	\$4,104,247	-\$695,368	(\$4.82)	\$3,798,079	-\$389,200	(\$2.70)	
IN 452		10,716	\$1,733,969	\$2,324,220	-\$590,250	(\$4.59)	\$2,061,987	-\$327,918	(\$2.55)	
IN 517		557	\$208,347	\$234,499	-\$26,152	(\$3.91)	\$222,876	-\$14,529	(\$2.17)	
IN COIN - GTE NORTH INC.		176,831	\$19,180,137	\$24,715,346	-\$5,535,209	(\$2.61)	\$22,193,311	-\$3,013,174	(\$1.42)	
IN GLIN - CONTEL OF THE SOU		10,222	\$1,687,319	\$2,190,328	-\$503,009	(\$4.10)	\$1,969,378	-\$282,059	(\$2.30)	
IN GTIN - GTE NORTH INC.		720,686	\$100,455,260	\$129,505,392	-\$29,050,131	(\$3.36)	\$116,638,935	-\$16,183,675	(\$1.87)	
IN NBIN - INDIANA BELL		2,124,359	\$229,479,514	\$286,479,704	-\$57,000,191	(\$2.24)	\$260,657,492	-\$31,177,978	(\$1.22)	
IN UTIN - UTC OF INDIANA, INC.		220,008	\$31,669,140	\$40,800,947	-\$9,131,807	(\$3.46)	\$37,031,564	-\$5,362,423	(\$2.03)	
IN Total		3,299,518	\$393,499,217	\$497,729,564	-\$104,230,347	(\$2.63)	\$451,190,927	-\$57,691,710	(\$1.46)	
IN Min						(\$7.94)			(\$4.41)	
IN Max						(\$2.24)			(\$1.22)	